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PRESS RELEASE

Economic projections for Belgium - Autumn 2008

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Coinciding with the publication in the ECB Monthly Bulletin of new Eurosystème projections for the euro area, this article presents the figures for the Belgian economy for 2008 and 2009. Since the publication of the previous forecasts in June 2008, the economic outlook has deteriorated very rapidly, both at global level and for Belgium. The financial tensions which emerged in mid 2007 turned into a serious crisis, and the contagion effects on the real economy proliferated, halting the growth of activity in the advanced economies and causing an abrupt fall in commodity prices.

The Eurosystème projections are based on assumptions drawn up in mid November 2008. They take account of a sharp slowdown in trade in 2009, in parallel with the slowdown in world growth. After dropping very rapidly to below 60 dollars per barrel in mid November 2008, oil prices are expected, on the basis of the forward markets, to maintain an average level of 67.3 dollars per barrel in 2009. Interest rates are also predicted to move in line with market expectations. As an annual average, the interest rates on 3-month interbank deposits in euro are set to fall from 4.7 p.c. in 2008 to 2.8 p.c. in 2009. Long-term rates are expected to remain steady at 4.5 p.c. in the case of Belgian government bonds. In regard to interest rates on business loans and mortgages, the projections also take account of the widening spread in relation to the rates on government bonds, apparent since the financial crisis erupted. Exchange rates are kept constant at the level of 1.27 dollars to the euro. In this context, having reached 2.6 p.c. in 2007, GDP growth in the euro area is projected at between 0.8 and 1.2 p.c. in 2008 and between -1 and 0 p.c. in 2009. Inflation is forecast at between 3.2 and 3.4 p.c. in 2008, dropping to between 1.1 and 1.7 p.c. in 2009, as a result of the decline in commodity prices.

According to the national accounts data, the slowdown in activity which began in mid 2007 as a result of weakening external demand was slightly less marked in Belgium than in the euro area, as GDP continued to rise, albeit slowly, in the second and third quarters of 2008. However, the plummeting confidence indicators show that the deterioration in the international economic situation and the worsening financial crisis will have a more widespread impact on the economy. As in the euro area, activity is predicted to decline in Belgium in late 2008 and early 2009, with a very modest recovery in the ensuing quarters. Thus, real GDP growth is projected to fall from 2.6 p.c. in 2007 to 1.4 p.c. in 2008 and -0.2 p.c. in 2009.

Most expenditure categories are affected directly or indirectly by the global financial crisis, and will therefore reflect the sharp growth slowdown in 2009. Exports of goods and services are projected to fall, following the marked deterioration in external demand. After its expansion had been curbed in 2008 by the stagnation of real disposable income caused by rising inflation, private consumption is not expected to grow in 2009, the main factors being the stock market slide and the subsequent increase in the savings ratio, but more generally the deteriorating economic conditions and labour market prospects. In these gloomy circumstances in terms of demand, and in the face of the increased cost of raising finance via bank credit – mainly because of the widening spreads – or via share issues, business investment is forecast to decline in 2009, after having been vigorous for more than four years. Investment in housing is likely to maintain the tendency to slow down which began in 2007.

On the labour market, net job creation, which had been a significant factor bolstering the economy in the last three years, is likely to dry up in 2009. Between the fourth quarter of 2008 and the fourth quarter of 2009, employment is set to decline by around 8,000 units in Belgium. As an annual average, growth should remain positive thanks to the still favourable trend during 2008. Following a year-on-year increase of 1.8 p.c. in 2007 and 1.5 p.c. in 2008, the rate of employment expansion in persons is projected to fall to 0.2 p.c. in 2009. The primary reason why employment is less responsive to activity lies in the support from certain branches which are not very sensitive to the business cycle; the service vouchers are a contributory factor here. Moreover, firms prefer to start by reducing the number of hours worked, cutting overtime and applying temporary lay-offs while maintaining their workforce if possible. Thus, the expected rise in the average number of persons employed in 2009 corresponds to a 0.3 p.c. reduction in the volume of labour. The unemployment rate is projected to rise from 6.6 p.c. in the fourth quarter of 2008 to 7.1 p.c. in the fourth quarter of 2009. As an annual average, it is set to increase from 6.7 p.c. in 2008 to 6.9 p.c. in 2009.

Inflation has fallen rapidly in Belgium, after peaking at 5.9 p.c. in July 2008. This fall originated from the deceleration in food price rises and the drop in oil prices. In accordance with the assumption that commodity prices will remain at a level below that prevailing for much of 2008, average inflation is likely to diminish from 4.6 p.c. in 2008 to 1.9 p.c. in 2009. The health index is forecast to rise by 4.3 p.c. in 2008 and 2.3 p.c. in 2009. However, inflation is expected to increase in the case of services, particularly as a result of the indirect effect of the energy and food price shocks on transport and restaurants, the linking of certain service price increases to the general level of inflation, e.g. for rents, and the progressive incorporation of labour cost increases.

Reflecting both the dip in labour productivity stemming from the weakness of economic activity in 2008 and 2009, and the continuing sustained increase in hourly labour costs, unit labour costs in the private sector are forecast to rise by 3.1 p.c. in 2007, 3.8 p.c. in 2008 and 3.2 p.c. in 2009, compared to an average annual increase of 0.7 p.c. from 2002 to 2006. The accelerating rise in hourly labour costs in 2007 and 2008 should be seen in the context of the pressure on certain labour market segments in the wake of the economic boom prevailing at that time. In addition, temporary factors reinforced the increase in 2007, and indexation has a major impact in 2008. For 2009, the growth of 3.3 p.c. in hourly labour costs, assumed for the purpose of this exercise, corresponds essentially to the expected effect of indexation, the latter taking time to respond to the acceleration in inflation measured by the health index in 2008. This assumption is in line with that adopted by the Central Economic Council Secretariat, taking account of the adjustment to the outlook for growth and inflation in recent months.

According to the latest information, public finances will end the year 2008 with a deficit of 0.9 p.c. of GDP. In the macroeconomic context described above, that deficit is likely to reach 1.7 p.c. of GDP in 2009. The downward trend in the public debt ratio is expected to be interrupted in 2008. At the end of this year, the public debt is forecast at 87.8 p.c. of GDP, or around 4 percentage points above its level at the end of 2007. This increase is due to loans which the Belgian State contracted to finance injections of capital into its financial institutions and the loans which it granted to them. In 2009, the public debt ratio is likely to begin falling again, although more slowly than in previous years taking account of the relative weakness of nominal GDP growth and the increased borrowing requirement.